

CITY OF ALTOONA

**INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2007

Table of Contents

OFFICIALS	2
INDEPENDENT AUDITOR'S REPORT	3-4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5-11
BASIC FINANCIAL STATEMENTS:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets - Cash Basis	A 12 -13
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and	
Changes in Cash Balances	B 14-15
Reconciliation of the Statement of Cash Receipts,	
Disbursements and Changes in Cash Balances to the	
Statement of Activities and Net Assets	C 16
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and	
Changes in Cash Balances	D 17-18
Reconciliation of the Statement of Cash Receipts,	
Disbursements and Changes in Cash Balances to the	
Statement of Activities and Net Assets	E 19
Notes to Financial Statements	20-30
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule of Receipts, Disbursements	
and Changes in Balances - Budget and Actual (Cash Basis) -	
All Governmental Funds and Proprietary Funds	31
Notes to Required Supplementary Information -	
Budgetary Reporting	32
OTHER SUPPLEMENTARY INFORMATION:	<u>Schedule</u>
Statement of Cash Receipts, Disbursements and Changes	
in Cash Balances - Nonmajor Governmental Funds	1 33
Schedule of Indebtedness	2 34
Bond Maturities	3 35-36
Schedule of Receipts by Source and Disbursements by Function -	
All Governmental and Proprietary Funds	4 37
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL	
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND	
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL	
STATEMENTS PERFORMED IN ACCORDANCE WITH	
<i>GOVERNMENT AUDITING STANDARDS</i>	38-39
SCHEDULE OF FINDINGS AND	
QUESTIONED COSTS	40-44

CITY OF ALTOONA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Timothy J. Burget	Mayor	Jan 2008
Josiah (Skip) Conkling	Mayor Pro-Tem	Jan 2010
Charles Franklin	Council Member	Died July 2006
Matt Davenport	Council Member	Jan 2008
Stacey Warren	Council Member	Jan 2008
Michelle Sloan	Council Member	Jan 2010
Joe Riding	Council Member	Jan 2010
Jeffery Mark	City Administrator	Indefinite
Randy Pierce	Clerk/Finance Officer	Jan 2007
Robert Laden	Attorney	Jan 2007



MARTENS & COMPANY, CPA, LLP

CERTIFIED PUBLIC ACCOUNTANTS

4949 Pleasant Street, Suite 104

West Des Moines, Iowa 50266

(515)-223-4841

FAX: (515)-223-0851

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Altoona, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Altoona's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the aforementioned financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Altoona as of June 30, 2007, and the respective changes in the cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2007 on our consideration of the City of Altoona's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 11 and 31 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the aforementioned financial statements that collectively comprise the City of Altoona's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

Martens & Company, CPA, LLP

West Des Moines, Iowa
September 18, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Altoona provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 23%, or approximately \$5,682,000 from fiscal 2006 to fiscal 2007. Property tax increased approximately \$1,533,900 and bond proceeds decreased by 7.47 million.
- Disbursements of the City's governmental activities increased 23%, or approximately \$4,167,000, from fiscal 2006 to fiscal 2007. Public safety, public works, and capital projects increased approximately \$461,000, \$168,000 and \$5,009,000 respectively. Debt service decreased \$1,521,000.
- The City's total cash basis net assets decreased 11% or approximately \$2,587,300 from fiscal 2006 to fiscal 2007. Of this amount, the assets of the governmental activities decreased \$1,685,900 and the assets of the business type activities decreased \$901,400.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements as well as other requirements as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the government's financial activities.

The Government-wide Financial Statements consist of a statement of activities and net assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about nonmajor governmental funds and debt obligations.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property taxes finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system, and garbage collection. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. Governmental funds include: 1) the General Fund, 2) the Special Revenue Funds such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Capital Projects Fund. The government fund financial statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business-type activities. The City maintains four Enterprise Funds to provide separate information for the water, sewer, garbage and recycling funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliation between the government-wide statement and the fund financial statements follow the fund statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities has decreased from a year ago, decreasing from \$16.425 million to \$14.739 million. Our analysis below focuses on this change in cash balance and changes in receipts and disbursements from the prior year.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	2007	2006
Receipts and transfers:		
Program receipts:		
Charges for service and sales	\$ 821	\$ 989
Operating grants, contributions and restricted interest	1,196	1,072
Capital grants, contributions and restricted interest	1	12
General receipts:		
Property tax	9,331	7,796
Other City taxes	490	503
Grants and contributions not restricted to specific purposes	1,113	1,069
Unrestricted investment earnings	648	313
Bond proceeds	5,600	13,071
Other general receipts	30	42
Transfers, net	1,188	2,220
Total receipts and transfers	20,418	27,087
Disbursements:		
Public safety	3,680	3,219
Public works	1,308	1,140
Culture and recreation	1,722	1,766
Community and economic development	1,973	1,833
General government	671	717
Debt service	3,290	4,811
Capital projects	9,460	4,406
Total disbursements	22,104	17,892
Increase (decrease) in cash balance	(1,686)	9,195
Cash basis net assets beginning of year	16,425	7,230
Cash basis net assets end of year	\$ 14,739	\$ 16,425

The City's total receipts for governmental activities decreased by 23 percent (\$5.682 million). The total cost of all programs and services increased by approximately \$4.17 million or 22.3 percent due to an increase in disbursements in the A-Land/1st Ave/945 and the campus capital projects.

Based on increases in the total assessed valuation, property tax receipts are budgeted to increase by an additional \$273,000 next year or 8.2%.

The cost of all governmental activities this year was \$22.059 million compared to \$17.892 million last year. However, as shown in the statement of activities and net assets - cash basis on page 12, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$20.087 million because some of the cost was paid by those directly benefitted from the programs (\$.821 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$1.196 million). Overall, the City's governmental program receipts, including intergovernmental aid and fees for service, decreased in 2007 from approximately \$2,072,000 to approximately \$1,981,000, principally due to a decrease in capital grants, contributions, restricted interest and charges for services. The City paid for the remaining public benefit portion of governmental activities with approximately \$9,821,619 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Business Type Activities

Changes in Cash Basis Net Assets of Business-Type Activities (Expressed in Thousands)		
	<u>2007</u>	<u>2006</u>
Receipts:		
Program receipts:		
Charges for service and sales:		
Water	\$ 2,824	\$ 2,732
Sewer	2,676	2,571
Garbage	398	376
Recycling	111	105
General receipts:		
Water deposits	21	24
Unrestricted investment earnings	27	41
Bond proceeds	-	2,539
Other general receipts	72	84
Non-operating receipts	<u>38</u>	<u>29</u>
Total receipts	<u>6,167</u>	<u>8,501</u>
Disbursements:		
Water	2,545	4,434
Sewer	2,788	2,119
Garbage	403	330
Water deposits	23	15
Other	121	105
Transfers	<u>1,188</u>	<u>2,220</u>
Total disbursements and transfers	<u>7,068</u>	<u>9,223</u>
Increase (decrease) in cash balance	(901)	(722)
Cash basis net assets beginning of year	<u>7,642</u>	<u>8,364</u>
Cash basis net assets end of year	<u>\$ 6,741</u>	<u>\$ 7,642</u>

Total business-type activities receipts for the fiscal year were \$6.161 million compared to \$8.501 million last year. This decrease was due primarily to the decrease in bond proceeds. The cash balance decreased by approximately \$901,000 from the prior year. Total disbursements for the fiscal year decreased by approximately 15 percent to a total of \$5.880 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Altoona completed the year, its governmental funds reported a combined fund balance of \$14,589,223, a decrease of \$1,604,360 above last year's total of \$16,193,583. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$234,304 from the prior year to \$4,011,042. Approximately \$200,000 of this increase was due to the increase in the assessed tax base of the City.
- The Road Use Tax Fund cash balance decreased by \$106,846 to \$17,331 during the fiscal year. This decrease was attributable to an increase in roadway maintenance and in snow removal expense.
- The Tax Increment Financing Fund increased by \$1,172,861 to \$4,239,588 during the fiscal year. The increase is the result of several major projects under construction this year.
- The total of Capital Projects Funds decreased by \$2,866,480 to \$5,932,354 from the prior year, the decrease was primarily due to some major capital projects being finished.
- The Debt Service Fund cash balance decreased by \$32,032 to \$198,463 during the fiscal year. This decrease was due to the payment of two bond issues by a refunding bond issue.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$209,804 to \$2,797,658, due primarily to higher water operations costs.
- The Sewer Fund cash balance decreased by \$750,133 to \$3,664,606, due primarily to higher capital repairs.
- The Water Deposit Fund decreased \$2,020 to \$63,878.
- The Garbage Fund increased \$6,590 to \$70,260. This was due to the fact that the rate increase is higher than costs to the City.
- The Recycling Fund decreased \$9,665 to \$15,418. This is due to an increase in cost to the City for recycling.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearings for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Over the course of the year, the City amended its operating budget once. The amendment was approved on May 21, 2007 to provide for additional expenditures in certain City departments. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2007, the City had approximately \$42,070,000 in bonds and other long-term debt compared to approximately \$39,030,000 last year shown as follows:

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30	
	2007	2006
General obligation bonds		
Corporate purpose and other	\$ 26,000	\$ 21,395
Urban renewal tax increment financing	8,670	9,760
	34,670	31,155
Revenue notes	7,400	7,940
Total	<u>\$ 42,070</u>	<u>\$ 39,095</u>

The City's general obligation bond rating continues to carry an A2 rating, a rating that has been assigned by national rating agencies to the City's debt. The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to 5 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$21,560,000 is well below the City's \$46.245 million legal debt limit.

More detailed information about the City's long-term liabilities is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the 2008 fiscal year budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The City's population growth since the 2000 census stands at 29%. Unemployment in the county now stands at 3.1 percent. This compares with the state unemployment rate of 3.9 percent.

The U.S. Consumer Price Index (CPI) is a measure of the changes in retail prices of a fixed market grouping of consumer goods and services. The CPI-U for July 2006 was 203.50. For the 12 month period that ended in July, the CPI-U increased 3.60 percent.

These indicators were taken into account when adopting the budget for 2008. Amounts available for appropriation in the budget are \$.6 million, an increase of 3.20 percent over the final 2007 budget. Property tax (benefitting from increases in valuation) and proceeds from the tax increment financing revenue are expected to lead this increase. The City will use these to finance programs currently offered and to defray the costs of carrying out the City's continued economic development. Budgeted disbursements are expected to decrease by approximately \$5.0 million. A decrease in capital projects represents the largest decrease.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$5.1 million by the close of fiscal year 2008. Most of this is from projects carried over from the prior year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Randy Pierce, City Clerk/Finance Officer, 407 8th Street S.E., P.O. Box 338, Altoona, Iowa 50009.

BASIC FINANCIAL STATEMENTS

CITY OF ALTOONA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

As of and for the year ended June 30, 2007

		Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants and Contributions Restricted Interest	Governmental Activities	Business-type Activities	Total
Functions/Programs:							
Governmental activities:							
Public safety	\$ 3,679,699	\$ 672,462	\$ 50,841	\$ -	\$(2,956,396)	\$ -	\$(2,956,396)
Public works	1,308,267	-	1,108,570	-	(199,697)	-	(199,697)
Culture and recreation	1,721,752	21,829	-	-	(1,699,923)	-	(1,699,923)
Community and economic development	1,972,798	19,333	-	-	(1,953,465)	-	(1,953,465)
General government	671,264	107,361	36,712	-	(527,191)	-	(527,191)
Debt service	3,290,010	-	-	-	(3,290,010)	-	(3,290,010)
Capital projects	9,460,450	-	-	265	(9,460,185)	-	(9,460,185)
Total governmental activities	22,104,240	820,985	1,196,123	265	(20,086,867)	-	(20,086,867)
Business-type activities:							
Water	2,544,796	2,824,037	19,207	-	-	298,448	298,448
Sewer	2,788,440	2,675,934	17,816	-	-	(94,690)	(94,690)
Garbage	403,236	398,381	-	-	-	(4,855)	(4,855)
Water deposits	22,820	-	20,800	-	-	(2,020)	(2,020)
Recycling	120,829	111,164	-	-	-	(9,665)	(9,665)
Total business-type activities	5,880,121	6,009,516	57,823	-	-	187,218	187,218
Total	\$27,984,361	\$6,830,501	\$ 1,253,946	\$ 265	(20,086,867)	187,218	(19,899,649)
General receipts:							
Property tax levied for:							
General purposes					3,053,637	-	3,053,637
Employee benefits					57,630	-	57,630
Tax increment financing					5,997,960	-	5,997,960
Special assessment					7,468	-	7,468
Debt service					214,624	-	214,624
Hotel/motel tax					490,300	-	490,300
Grants and contributions not restricted to specific purpose					1,113,434	-	1,113,434
Bond proceeds					5,600,000	-	5,600,000
Unrestricted investment earnings					648,326	27,219	675,545
Miscellaneous					29,799	71,928	101,727
Transfers					1,187,793	(1,187,793)	-
Total general receipts and transfers					18,400,971	(1,088,646)	17,312,325
Change in cash basis net assets					(1,685,896)	(901,428)	(2,587,324)
Cash basis net assets beginning of year					16,424,859	7,642,165	24,067,024
Cash basis net assets end of year					\$14,738,963	\$ 6,740,737	\$21,479,700

CITY OF ALTOONA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS - CONTINUED

As of and for the year ended June 30, 2007

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants and Contributions Restricted Interest	Governmental Activities	Business-type Activities	Total
Disbursements						
Cash Basis Net Assets						
Restricted:						
Debt service				\$ 198,463	\$ 1,210,235	\$ 1,408,698
Streets				17,331	-	17,331
Urban renewal purposes				4,239,588	-	4,239,588
Other purposes				6,058,923	63,878	6,122,801
Unrestricted				4,224,658	5,466,624	9,691,282
Total cash basis net assets				<u>\$ 14,738,963</u>	<u>\$ 6,740,737</u>	<u>\$ 21,479,700</u>

See notes to financial statements.

CITY OF ALTOONA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2007

	General	Special Revenue Road Use Tax	Tax Increment Financing	Capital Projects A-Land/1 st Ave/ 945	Campus	Debt Service	Other Nonmajor Governmental Funds	Total
Receipts:								
Property taxes	\$3,053,637	\$ -	\$ -	\$ -	\$ -	\$ 214,624	\$ 57,630	\$ 3,325,891
Tax increment financing collections	-	-	5,997,960	-	-	-	-	5,997,960
Other city tax								
Hotel/motel	490,300	-	-	-	-	-	-	490,300
Lottery revenue	939,293	-	-	-	-	-	-	939,293
Licenses and permits	452,064	-	-	-	-	-	-	452,064
Uses of money and property	648,326	-	-	-	-	-	265	648,591
Intergovernmental	210,853	1,108,570	-	-	-	-	50,841	1,370,264
Charges for service	368,921	-	-	-	-	-	-	368,921
Special assessments	-	-	-	-	-	7,468	-	7,468
Miscellaneous	29,799	-	-	-	-	-	-	29,799
Total receipts	6,193,193	1,108,570	5,997,960	-	-	222,092	108,736	13,630,551
Disbursements:								
Operating:								
Public safety	3,394,295	-	-	-	-	-	114,636	3,508,931
Public works	-	1,215,416	-	-	-	-	-	1,215,416
Culture and recreation	1,675,679	-	-	-	-	-	-	1,675,679
Community and economic development	556,061	-	1,416,737	-	-	-	-	1,972,798
General government	655,820	-	-	-	-	-	-	655,820
Debt service	-	-	-	-	-	3,290,010	-	3,290,010
Capital projects	-	-	941,167	5,161,538	3,039,889	-	317,856	9,460,450
Total disbursements	6,281,855	1,215,416	2,357,904	5,161,538	3,039,889	3,290,010	432,492	21,779,104
Excess (deficiency) of receipts over (under) disbursements	(88,662)	(106,846)	3,640,056	(5,161,538)	(3,039,889)	(3,067,918)	(323,756)	(8,148,553)
Other financing sources (uses)								
Bond proceeds	-	-	-	5,600,000	-	-	-	5,600,000
Operating transfers in	692,705	-	-	-	-	3,088,422	52,536	3,833,663
Operating transfers (out)	(369,739)	-	(2,467,195)	-	-	(52,536)	-	(2,889,470)
Total other financing sources (uses)	322,966	-	(2,467,195)	5,600,000	-	3,035,886	52,536	6,544,193
Net change in cash balances	234,304	(106,846)	1,172,861	438,462	(3,039,889)	(32,032)	(271,220)	(1,604,360)
Cash balances beginning of year	3,776,738	124,177	3,066,727	4,369,850	3,515,838	230,495	1,109,758	16,193,583
Cash balances end of year	\$4,011,042	\$ 17,331	\$4,239,588	\$4,808,312	\$ 475,949	\$ 198,463	\$ 838,538	\$14,589,223

CITY OF ALTOONA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES - CONTINUED
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2007

	General	Special Revenue		Capital Projects		Debt Service	Other Nonmajor Governmental Funds	Total
		Road Use Tax	Tax Increment Financing	A-Land/1 st Ave/945	Campus			
Cash Basis Fund Balances								
Reserved:								
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 198,463	\$ -	\$ 198,463
Unreserved:								
General fund	4,011,042	-	-	-	-	-	-	4,011,042
Special revenue funds	-	17,331	4,239,588	-	-	-	190,447	4,447,366
Capital projects funds	-	-	-	4,808,312	475,949	-	648,091	5,932,352
Total cash basis fund balances	<u>\$4,011,042</u>	<u>\$ 17,331</u>	<u>\$4,239,588</u>	<u>\$4,808,312</u>	<u>\$ 475,949</u>	<u>\$ 198,463</u>	<u>\$ 838,538</u>	<u>\$14,589,223</u>

See notes to financial statements.

CITY OF ALTOONA

RECONCILIATION OF THE STATEMENT OF CASH
RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
Governmental Funds

As of and for the year ended June 30, 2007

Total governmental funds cash balances (page 14)	\$ 14,589,223
<i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i>	
The Internal Service Fund is used by management to charge the costs of partial self funding of the City's equipment purchases to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	
	<u>149,740</u>
Cash basis net assets of governmental activities (page 12)	<u>\$ 14,738,963</u>
Net change in cash balances (page 14)	\$ (1,604,360)
<i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i>	
The Internal Service Fund is used by management to charge the costs of equipment purchases to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.	
	<u>(81,536)</u>
Change in cash balance of governmental activities (page 12)	<u>\$ (1,685,896)</u>

See notes to financial statements.

CITY OF ALTOONA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
Proprietary Funds

As of and for the year ended June 30, 2007

	Enterprise Funds					Internal Service Fund
	Water	Sewer	Water Deposits	Garbage	Recycling	Equipment Replacement
Operating receipts:						
Charges for service	\$2,824,037	\$2,675,934	\$ -	\$ 398,381	\$111,164	\$ -
Use of money and property	19,207	17,816	-	-	-	-
Miscellaneous	5,615	54,868	20,800	11,445	-	-
Total operating receipts	2,848,859	2,748,618	20,800	409,826	111,164	-
Operating disbursements:						
Governmental activities:						
Public safety	-	-	-	-	-	170,768
Public works	-	-	-	-	-	92,851
Culture and recreation	-	-	-	-	-	46,073
General government	-	-	-	-	-	15,444
Business-type activities:	2,538,400	2,788,440	22,820	403,236	120,829	6,396
Total operating disbursements	2,538,400	2,788,440	22,820	403,236	120,829	331,532
Excess (deficiency) of operating receipts over (under) operating disbursements	310,459	(39,822)	(2,020)	6,590	(9,665)	(331,532)
Non-operating receipts (disbursements):						
Investment interest	15,083	12,136	-	-	-	-
Total non-operating receipts	15,083	12,136	-	-	-	-
Excess (deficiency) of receipts over (under) disbursements	325,542	(27,686)	(2,020)	6,590	(9,665)	(331,532)
Other financing sources (uses):						
Operating transfers in	644,022	234,465	-	-	-	313,600
Operating transfers (out)	(1,179,368)	(956,912)	-	-	-	-
Total other financing sources (uses)	(535,346)	(722,447)	-	-	-	313,600
Net change in cash balances	(209,804)	(750,133)	(2,020)	6,590	(9,665)	(17,932)
Cash balances beginning of year	3,007,462	4,414,739	65,898	63,670	25,083	296,589
Cash balances end of year	\$2,797,658	\$3,664,606	\$ 63,878	\$ 70,260	\$ 15,418	\$ 278,657

CITY OF ALTOONA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES - CONTINUED
Proprietary Funds

As of and for the year ended June 30, 2007

							Internal
	Enterprise Funds						Service Fund
	Water	Sewer	Water Deposits	Garbage	Recycling	Total	Equipment Replacement
Cash Basis Fund Balances							
Reserved for equipment replacement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 278,657
Reserved for debt service	717,125	493,110	-	-	-	1,210,235	-
Unreserved	2,080,533	3,171,496	63,878	70,260	15,418	5,401,585	-
Total cash basis fund balances	\$ 2,797,658	\$ 3,664,606	\$ 63,878	\$ 70,260	\$ 15,418	\$ 6,611,820	\$ 278,657

See notes to financial statements.

CITY OF ALTOONA

RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
Proprietary Funds

As of and for the year ended June 30, 2007

Total enterprise funds cash balances (page 17) \$ 6,611,820

*Amounts reported for business type activities in the Statement of
Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's equipment purchases to individual funds. The assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets.

128,917

Cash basis net assets of business type activities (page 12)

\$ 6,740,737

Net change in cash balances (page 17)

\$ (965,032)

*Amounts reported for business type activities in the Statement of
Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the equipment purchases to individual funds. The change in net assets of the Internal Service Fund is reported with business type activities.

63,604

Change in cash balance of business type activities (page 12)

\$ (901,428)

See notes to financial statements.

CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Altoona is a political subdivision of the State of Iowa located in Polk County. It was first incorporated in 1876 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Altoona has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations and 28E Agreements

The City also participates in several 28E and jointly governed organizations that provide goods or services to the citizenry of the City but do not meet criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of 28E organizations and of the following boards and commissions; The Safety Coalition of Central Iowa Communities, Polk County Aviation Authority, Intergovernmental Metro Design Policy, HAZ-MAT Services, Sec Taylor Stadium, WRA Metropolitan Solid Waste Agreement, building inspection for the Cities of Mitchellville, Iowa and Bondurant, Iowa, Urban Standard Specifications, SEP School district, Snow Removal for various locations, Traffic Signal lights for Highway 65 and Road surfacing at various locations, Convention and Visitors Bureau, Des Moines Water Works, Fair Play Agreement, Iowa Tobacco Enforcement Compliance, WRA Facility Plan, Homeland Security Services, Iowa DOT, BRAVO, Polk County MTA, Metro Area Fire Mutual Aid, Metro Home Improvement Program, and Suburban Emergency Response Team.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of the interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Continued

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unreserved net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Continued

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities with the exception of those that are financed through enterprise funds.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Water Deposits Fund accounts for water utility deposits by residents.

The Garbage Fund accounts for the operation and maintenance of the City's residential garbage collection system.

The Recycling Fund accounts for the operation and maintenance of the City's residential garbage and yard waste recycling system.

The City also reports the following additional proprietary fund:

The equipment replacement fund is an Internal Service Fund utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Measurement Focus and Basis of Accounting - Continued

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, all functions were within the budget guidelines.

(2) CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had investments at June 30, 2007 are as follows:

Type	Carrying Amount	Fair Value
Certificates of deposit	<u>\$1,214,205</u>	<u>\$1,214,205</u>

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,009,601 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Credit Risk - The City's investment in the Iowa Public Agency Investment Trust is unrated.

CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007

(3) BONDS PAYABLE

Annual debt service requirements for general obligation bonds and revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$2,755,000	\$2,245,364	\$ 560,000	\$283,945	\$3,315,000	\$2,529,309
2009	3,070,000	2,454,426	585,000	266,435	3,655,000	2,720,861
2010	3,190,000	2,373,191	600,000	247,480	3,790,000	2,620,671
2011	3,070,000	2,066,221	625,000	227,398	3,695,000	2,293,619
2012	2,300,000	2,006,137	625,000	206,080	2,925,000	2,212,217
2013	2,125,000	1,713,304	445,000	188,460	2,570,000	1,901,764
2014	2,220,000	1,670,874	465,000	168,510	2,685,000	1,839,384
2015	2,315,000	1,632,279	495,000	147,660	2,810,000	1,779,939
2016	2,400,000	1,583,476	470,000	135,460	2,870,000	1,718,936
2017	2,200,000	1,539,201	500,000	114,345	2,700,000	1,653,546
2018	2,300,000	1,496,754	295,000	91,585	2,595,000	1,588,339
2019	2,410,000	1,459,186	310,000	78,900	2,720,000	1,538,086
2020	1,920,000	1,410,871	330,000	65,260	2,250,000	1,476,131
2021	1,360,000	741,726	345,000	50,410	1,705,000	792,136
2022	760,000	44,299	365,000	34,885	1,125,000	79,184
2023	275,000	12,719	385,000	18,095	660,000	30,814
	<u>\$34,670,000</u>	<u>\$24,450,028</u>	<u>\$7,400,000</u>	<u>\$2,324,908</u>	<u>\$42,070,000</u>	<u>\$26,774,936</u>

The total interest expense paid for the year ended June 30, 2007 was \$1,543,501.

The resolutions providing for the issuance of the water revenue bonds include the following provisions:

- A. The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the fund.
- B. The City covenants to establish and maintain a Water Revenue Bond Sinking Fund in an amount equal to the maximum principal and interest coming due on all outstanding parity bonds in any succeeding fiscal year.
- C. The City covenants to establish a Water Revenue Debt Service Reserve Fund in an amount equal to the maximum principal and interest due on any one year. The amount is approximately \$360,000 at June 30, 2007.
- D. The City covenants to maintain a Water Revenue Bond Improvement Fund with an initial deposit of \$40,000. Additional funds of not less than \$750 each month will be deposited until the Fund equals or exceeds \$50,000. This account is restricted solely for the use of paying principal or interest on the Water Revenue Bonds when there is insufficient money in the Sinking Fund or Reserve Fund, and to the extent not required for the foregoing, to pay for extraordinary costs not included in the annual budget.

CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007

(3) BONDS PAYABLE - CONTINUED

The resolutions providing for the issuance of the sewer revenue bonds include the following provisions:

- A. The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the fund.
- B. The City covenants to establish and maintain a Sewer Revenue Bond Sinking Fund in an amount equal to the maximum amount of principal and interest coming due on all outstanding parity bonds in any succeeding fiscal year.
- C. The City covenants to establish a Sewer Revenue Debt Service Reserve Fund. The reserve is to be partially funded from bond proceeds in an amount not to exceed 10% of the bond purchase price and funds on hand. The balance in the Reserve Fund shall equal the lesser of the maximum debt service or ten percent of the net bond proceeds on outstanding bonds and is approximated at \$225,000.

(4) JOINT VENTURE AND COMMITMENTS

The City is a participating community in the Des Moines Metropolitan Wastewater Reclamation Authority (WRA) joint venture. This joint venture provides primary and secondary treatment of sewer flows for the participating communities. The Amended and Restated Agreement for the Des Moines Metropolitan Wastewater Reclamation Authority (WRA) was effective on July 1, 2004. This agreement amended and restated the previous Integrated Community Area (I.C.A.) Agreement to provide continued operation, improvements and expansion. The WRA Agreement establishes the WRA as a separate legal entity with its own Board, creates an independent governance structure, establishes an independent bonding authority for the WRA and provides a framework for additional communities to participate.

Annually, the WRA establishes an allocation to all participating communities based on operations, maintenance, debt service and reserve requirements. Allocations are based on wastewater reclamation facility flows and are adjusted prospectively for differences in budgeted flows and actual flows.

As part of the Agreement, the WRA issued debt to advance refund the sewer revenue refunding bonds Series 1997C and 2002D and the state revolving loans SRF2 and SRF3 of the City of Des Moines. In addition, state revolving loans SRF4, SRF6 and SRF7 were reassigned from the City of Des Moines to the WRA.

The City of Altoona retains an ongoing financial responsibility to the WRA since it is obligated in some manner for the debts of the joint venture through the annual allocation. Although the debt of the WRA is to be paid solely and only from WRA revenues, the participating communities in the joint venture cannot withdraw from the joint venture while any of the bonds issued during the time the communities were a participating community are still outstanding. The WRA Sewer Revenue Bonds Series 2004A, 2004B and 2006 include provisions that place the WRA debt service requirements on the same parity and rank as other debts of the participating communities.

CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007

(4) JOINT VENTURE AND COMMITMENTS - CONTINUED

The WRA Agreement requires the debt service on the Series 2004A bonds to be allocated using the annual flow allocation to the participating communities based on the existing allocations of debt service under the prior I.C.A. agreement. The Series 2004A bonds had a balance of \$16,685,000 as of June 30, 2007. The City of Altoona has a commitment for approximately \$-0-, or -0-%, for future principal payment requirements on that debt. The WRA Sewer Revenue Bonds Series 2004B and 2006 bonds were issued for capital expansion. The WRA Agreement requires the debt service on these bonds to be allocated to the participating communities based on the WRA flows of the core communities and expansion communities of each calendar year. As of June 30, 2007, the Series 2004B bonds had a balance of \$65,780,000 and the City of Altoona's estimated future allocation based on the WRA flows is currently \$3,279,572, or 4.99%. As of June 30, 2007, the Series 2006 bonds had a balance of \$38,050,000 and the City of Altoona's estimated future allocation based on the WRA Flows is currently \$2,077,750 or 5.46%. The State Revolving Loans are to be paid by the participating communities based on the existing allocations under the prior I.C.A. agreement. As of June 30, 2007, the WRA had \$11,824,000 in outstanding State Revolving Loans, of which \$-0- of future principal debt service is a commitment of the City of Altoona.

The WRA Agreement does not provide for the determination of an equity interest for the participating communities. Withdrawing from the joint venture is a forfeit of all reversionary interest and no compensation will be paid. Pursuant to the new agreement, the City's investment in the joint venture under the I.C.A. Agreement has been contributed to the new WRA organization. The City retains a reversionary interest percentage in the net assets of the WRA redeemable only in the event the WRA is dissolved. During the year ended June 30, 2007, the City paid the WRA \$311,641 for operations, maintenance, equipment replacements and debt service payments.

The WRA issues separate financial statements that may be obtained at 3000 Vandalia Road, Des Moines, Iowa 50317-1346.

(5) PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$281,837, \$263,300 and \$226,361, respectively, equal to the required contributions for each year.

CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007

(6) COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and compensation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for these earned vacation and sick leave termination payments payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$208,697
Sick leave	<u>45,394</u>
Total	<u>\$254,091</u>

This liability has been computed based on rates of pay as of June 30, 2007.

(7) INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General Fund	Enterprise:	
	Water Fund	\$ 277,082
	Sewer Fund	415,623
Debt Service Fund	General Fund	126,139
	Special Revenue:	
	Tax Increment Financing	2,467,195
	Enterprise:	
	Water Fund	233,264
	Sewer Fund	261,824
Capital Projects Fund	Debt Service	52,536

CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007

(7) INTERFUND TRANSFERS - CONTINUED

Transfer to	Transfer from	Amount
Internal Service Fund:		
Equipment Replacement Fund	General Fund	243,600
	Enterprise:	
	Water Fund	25,000
	Sewer Fund	45,000
Enterprise Fund:	Enterprise:	
Water Sinking Fund	Water	644,022
Sewer Sinking Fund	Sewer	<u>234,465</u>
Total		<u><u>\$ 5,025,750</u></u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials totaling \$730 during the year ended June 30, 2007.

(9) RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 556 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007

(9) RISK MANAGEMENT - CONTINUED

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2007 were \$164,427.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2007, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation. The City's payment is recorded as disbursements from its operating funds at the time of payment. The City's payment for the year ended June 30, 2007 was \$147,929. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan as allowed by Internal Revenue Code Section 457. The plan allows City employees to defer a portion of their current salary until future years. These funds are held in trust for participating employees by a third party investor.

CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007

(11) CONSTRUCTION CONTRACTS

At June 30, 2007, the City had entered into construction contracts of approximately \$18,244,360 for various projects. At June 30, 2007 these projects will require future payments of approximately \$5,769,548 upon completion.

(12) IOWA EVENTS CENTER

The City has agreed to commit City funding for the financing of the construction of the Iowa Events Center Project located on and around the area adjacent to Veteran's Memorial Auditorium in Des Moines.

The City will provide a grant of \$291,774, to be used by the county for the project. The City grant is made to assist the county in project financing. The project is determined to benefit the residents of the City and the county.

The first grant installment was disbursed by the City September 16, 2004 in the amount of \$36,471.75. Identical amounts will be paid through fiscal year 2012.

(13) REVENUE RESERVE BALANCES

Revenue reserve balances are not available for general operating use. They are included with their respective water or sewer cash balances on Exhibit D. Cash balances at end of year are summarized as follows:

	Water	Sewer	Water Deposits	Garbage	Recycling	Total
General operation	\$2,080,533	\$3,171,496	\$63,878	\$ 70,260	\$ 15,418	\$5,401,585
Sinking fund	31,375	5,673	-	-	-	37,048
Revenue reserve fund	685,750	487,437	-	-	-	1,173,187
	<u>\$2,797,658</u>	<u>\$3,664,606</u>	<u>\$63,878</u>	<u>\$ 70,260</u>	<u>\$ 15,418</u>	<u>\$6,611,820</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ALTOONA

**BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS**

REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2007

	Governmental Fund Types Actual	Proprietary Fund Types Actual	Less Funds not Required to Be Budgeted	Net	Budgeted Amounts		Final to Actual Variance- Positive (Negative)
					Original	Final	
Receipts:							
Property tax	\$3,325,891	\$ -	\$ -	\$3,325,891	\$3,242,184	\$3,242,184	\$ 83,707
Tax increment financing collections	5,997,960	-	-	5,997,960	5,487,963	5,487,963	509,997
Other city tax	1,429,593	-	-	1,429,593	569,502	569,502	860,091
Licenses and permits	452,064	-	-	452,064	441,000	441,000	11,064
Uses of money and property	648,591	37,023	-	685,614	156,950	306,950	378,664
Intergovernmental	1,370,264	-	-	1,370,264	1,321,618	1,321,618	48,646
Charges for service	368,921	6,009,516	-	6,378,437	6,458,025	6,458,025	(79,588)
Special assessments	7,468	-	-	7,468	-	-	7,468
Miscellaneous	29,799	92,728	-	122,527	926,654	926,654	(804,127)
Total receipts	13,630,551	6,139,267	-	19,769,818	18,603,896	18,753,896	1,015,922
Disbursements:							
Public safety	3,508,931	170,768	170,768	3,508,931	3,560,247	3,660,247	151,316
Public works	1,215,416	92,851	92,851	1,215,416	1,178,923	1,278,923	63,507
Culture and recreation	1,675,679	46,073	46,073	1,675,679	2,056,396	2,056,396	380,717
Community and economic development	1,972,798	-	-	1,972,798	3,915,015	3,915,015	1,942,217
General government	655,820	15,444	15,444	655,820	699,933	719,933	64,113
Debt service	3,290,010	-	-	3,290,010	3,280,912	3,300,912	10,902
Capital projects	9,460,450	-	-	9,460,450	10,795,000	10,795,000	1,334,550
Business-type	-	5,880,121	6,396	5,873,725	6,208,660	6,208,660	334,935
Total disbursements	21,779,104	6,205,257	331,532	27,652,829	31,695,086	31,935,086	4,282,257
Excess (deficiency) of receipts over disbursements	(8,148,553)	(65,990)	(331,532)	(7,883,011)	(13,091,190)	(13,181,190)	5,298,179
Other financing sources							
Investment interest	-	27,219	-	27,219	-	-	27,219
Bond proceeds	5,600,000	-	-	5,600,000	11,529,902	11,679,902	(6,079,902)
Other	944,193	(944,193)	-	-	-	-	-
Total other financing sources	6,544,193	(916,974)	-	5,627,219	11,529,902	11,679,902	(6,052,683)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(1,604,360)	(982,964)	(331,532)	(2,255,792)	(1,561,288)	(1,501,288)	(754,504)
Balances beginning of year	16,193,583	7,873,441	(924,432)	24,991,456	8,555,037	7,577,037	17,414,419
Balances end of year	<u>\$14,589,223</u>	<u>\$6,890,477</u>	<u>\$ (1,255,964)</u>	<u>\$ 22,735,664</u>	<u>\$ 6,993,749</u>	<u>\$ 6,075,749</u>	<u>\$16,659,915</u>

See accompanying independent auditor's report.

CITY OF ALTOONA

REQUIRED SUPPLEMENTARY INFORMATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

June 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units, internal service, non-expendable trust, and agency funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type and non-program. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital project funds and proprietary funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. During the year, a budget amendment increased budgeted disbursements by \$240,000. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, no disbursements exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

CITY OF ALTOONA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2007

	Special Revenue		Capital Projects				Total
	Employee Benefits	Drug Enforcement Agency	Westside Sewer	Sewer Plant Expansion	WRA Sewer Project	Other	
Receipts:							
Property tax	\$ 57,630	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 57,630
Uses of money and property:							
Interest on investments	-	-	-	-	-	265	265
Intergovernmental:							
DEA funds	-	50,841	-	-	-	-	50,841
Total receipts	57,630	50,841	-	-	-	265	108,736
Disbursements:							
Operating:							
Public safety	57,630	57,006	-	-	-	-	114,636
Capital projects	-	-	-	-	-	317,856	317,856
Total disbursements	57,630	57,006	-	-	-	317,856	432,492
Excess (deficiency) of receipts over (under) disbursements	-	(6,165)	-	-	-	(317,591)	(323,756)
Other financing sources:							
Operating transfers in	-	-	-	-	-	52,536	52,536
Net change in cash balances	-	(6,165)	-	-	-	(265,055)	(271,220)
Cash balances beginning of year	-	196,612	103,220	333,623	195,103	281,200	1,109,758
Cash balances end of year	\$ -	\$ 190,447	\$ 103,220	\$ 333,623	\$ 195,103	\$ 16,145	\$ 838,538
Cash Basis Fund Balances							
Unreserved:							
Special revenue funds	\$ -	\$ 190,447	\$ -	\$ -	\$ -	\$ -	\$ 190,447
Capital project funds	-	-	103,220	333,623	195,103	16,145	648,091
Total cash basis fund balances	\$ -	\$ 190,447	\$ 103,220	\$ 333,623	\$ 195,103	\$ 16,145	\$ 838,538

See accompanying independent auditor’s report.

CITY OF ALTOONA

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation bonds:									
Corporate Purpose Series 2000	Oct. 1, 2000	4.60 - 4.75%	2,800,000	\$ 1,450,000	\$ -	\$ 260,000	\$ 1,190,000	\$ 67,500	\$ -
Urban Renewal Series 2001	Apr. 1, 2001	3.85 - 4.10	4,700,000	2,590,000	-	475,000	2,115,000	101,978	-
Corporate Purpose Series 2003A	Oct. 20, 2003	3.00 - 4.625	3,940,000	3,395,000	-	205,000	3,190,000	131,024	-
Urban Renewal/Corporate Purpose Series 2004C	Sept. 1, 2004	3.25 - 4.20	5,695,000	5,495,000	-	100,000	5,395,000	203,453	-
Refunding Notes, Series 2005	Feb. 15, 2005	2.40 - 3.75	2,715,000	2,715,000	-	230,000	2,485,000	83,700	-
Urban Renewal/Corporate Purpose Series 2005 B	Dec. 15, 2005	3.30 - 3.95	6,265,000	6,165,000	-	100,000	6,065,000	227,228	-
Refunding Bonds Series 2006A	Mar. 29, 2006	3.50 - 3.70	2,200,000	2,200,000	-	395,000	1,805,000	91,791	-
Urban Renewal/Corporate Purpose Series 2006B	Jun. 1, 2006	4.00 - 4.375	7,145,000	7,145,000	-	320,000	6,825,000	298,338	-
Urban Renewal/Corporate Purpose Series 2007A	May 1, 2007	3.60 - 3.95	5,600,000	-	5,600,000	-	5,600,000	-	-
				31,155,000	5,600,000	2,085,000	34,670,000	1,205,012	-
Revenue bonds:									
Water	Nov. 1, 1997	4.90 - 5.00	2,275,000	1,875,000	-	100,000	1,775,000	92,980	-
Sewer	Feb. 1, 2002	4.00 - 4.20	1,730,000	1,220,000	-	185,000	1,035,000	49,466	-
Water Refunding Series 2004	Mar. 3, 2004	2.50 - 3.15	955,000	675,000	-	155,000	520,000	18,033	-
Water Series 2004B	Sept. 1, 2004	4.00 - 4.70	4,280,000	4,170,000	-	100,000	4,070,000	178,010	-
				7,940,000	-	540,000	7,400,000	338,489	-
Total				\$39,095,000	\$5,600,000	\$2,625,000	\$42,070,000	\$1,543,501	\$ -

See accompanying independent auditor’s report.

CITY OF ALTOONA

BOND MATURITIES

June 30, 2007

General Obligation Bonds

Year Ending June 30,	Corporate Purpose Series 2000 Issued October 1, 2000		Urban Renewal Corporate Purpose Series 2001 Issued April 1, 2001		Corporate Purpose Series 2003A Issued October 20, 2003		Urban Renewal Corporate Purpose Series 2004C Issued September 1, 2004		Refunding Notes Series 2005 Issued February 15, 2005		Urban Renewal Corporate Purpose Series 2005B Issued December 15, 2005		Refunding Bonds Series 2006A Issued March 29, 2006		Urban Renewal Corporate Purpose Series 2006B Issued June 1, 2006	
	Interest		Interest		Interest		Interest		Interest		Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount
2008	4.60%	\$ 275,000	3.85%	\$ 495,000	3.00%	\$ 210,000	3.25%	\$ 350,000	2.40%	\$ 250,000	3.30%	\$ 100,000	3.50%	\$ 435,000	4.00%	\$ 365,000
2009	4.65	290,000	3.95	515,000	3.00	145,000	3.25	365,000	2.60	245,000	3.40	395,000	3.55	450,000	4.00	380,000
2010	4.70	305,000	4.00	540,000	3.00	150,000	3.25	380,000	2.80	265,000	3.45	410,000	3.60	450,000	4.00	395,000
2011	4.75	320,000	4.10	565,000	3.25	155,000	3.30	395,000	3.00	260,000	3.50	425,000	3.65	225,000	4.00	415,000
2012	-	-	-	-	3.50	160,000	3.50	410,000	3.20	285,000	3.55	445,000	3.70	245,000	4.00	430,000
2013	-	-	-	-	3.50	170,000	3.60	430,000	3.35	280,000	3.60	460,000	-	-	4.00	450,000
2014	-	-	-	-	3.70	175,000	3.70	450,000	3.50	300,000	3.65	480,000	-	-	4.25	465,000
2015	-	-	-	-	3.85	185,000	3.80	475,000	3.60	300,000	3.70	500,000	-	-	4.25	490,000
2016	-	-	-	-	4.00	195,000	4.00	495,000	3.75	300,000	3.75	520,000	-	-	4.25	510,000
2017	-	-	-	-	4.00	200,000	4.00	520,000	-	-	3.80	545,000	-	-	4.25	535,000
2018	-	-	-	-	4.15	210,000	4.10	550,000	-	-	3.85	570,000	-	-	4.25	555,000
2019	-	-	-	-	4.25	220,000	4.20	575,000	-	-	3.90	595,000	-	-	4.25	585,000
2020	-	-	-	-	4.35	235,000	-	-	-	-	3.95	620,000	-	-	4.375	610,000
2021	-	-	-	-	4.45	245,000	-	-	-	-	-	-	-	-	4.375	640,000
2022	-	-	-	-	4.55	260,000	-	-	-	-	-	-	-	-	-	-
2023	-	-	-	-	4.625	275,000	-	-	-	-	-	-	-	-	-	-
Total		<u>\$1,190,000</u>		<u>\$2,115,000</u>		<u>\$3,190,000</u>		<u>\$5,395,000</u>		<u>\$2,485,000</u>		<u>\$6,065,000</u>		<u>\$1,805,000</u>		<u>\$6,825,000</u>

See accompanying independent auditor’s report.

CITY OF ALTOONA

BOND MATURITIES

June 30, 2007

Year Ending June 30,	General Obligation Bonds			Revenue Bonds								Total
	Urban Renewal Corporate Purpose Series 2007A			Water		Sewer		Water Refunding		Water		
	Issued May 1, 2007			Issued November 1, 1997		Issued February 1, 2002		Issued March 3, 2004		Series 2004B Issued September 1, 2004		
	Interest			Interest		Interest		Interest		Interest		
	Rates	Amount	Total	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	
2008	3.60%	\$ 275,000	\$ 2,755,000	4.90%	\$ 115,000	4.00%	\$ 190,000	2.50%	\$ 155,000	4.00%	\$ 100,000	\$ 560,000
2009	3.60	285,000	3,070,000	4.90	120,000	4.00	200,000	2.70	125,000	4.00	140,000	585,000
2010	3.60	295,000	3,190,000	4.90	125,000	4.00	205,000	3.00	125,000	4.00	145,000	600,000
2011	3.60	310,000	3,070,000	4.90	130,000	4.10	215,000	3.15	115,000	4.00	165,000	625,000
2012	3.60	325,000	2,300,000	4.90	180,000	4.20	225,000	-	-	4.00	220,000	625,000
2013	3.60	335,000	2,125,000	5.00	215,000	-	-	-	-	4.00	230,000	445,000
2014	3.625	350,000	2,220,000	5.00	225,000	-	-	-	-	4.00	240,000	465,000
2015	3.70	365,000	2,315,000	5.00	240,000	-	-	-	-	4.00	255,000	495,000
2016	3.75	380,000	2,400,000	5.00	205,000	-	-	-	-	4.10	265,000	470,000
2017	3.80	400,000	2,200,000	5.00	220,000	-	-	-	-	4.20	280,000	500,000
2018	3.80	415,000	2,300,000	-	-	-	-	-	-	4.30	295,000	295,000
2019	3.85	435,000	2,410,000	-	-	-	-	-	-	4.40	310,000	310,000
2020	3.90	455,000	1,920,000	-	-	-	-	-	-	4.50	330,000	330,000
2021	3.90	475,000	1,360,000	-	-	-	-	-	-	4.50	345,000	345,000
2022	3.95	500,000	760,000	-	-	-	-	-	-	4.60	365,000	365,000
2023	-	-	275,000	-	-	-	-	-	-	4.70	385,000	385,000
Total		<u>\$5,600,000</u>	<u>\$34,670,000</u>		<u>\$1,775,000</u>		<u>\$1,035,000</u>		<u>\$ 520,000</u>		<u>\$4,070,000</u>	<u>\$7,400,000</u>

See accompanying independent auditor’s report.

CITY OF ALTOONA

SCHEDULE OF RECEIPTS BY SOURCE AND
DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL AND PROPRIETARY FUNDS

	Years ended June 30,			
	2007	2006	2005	2004
Receipts:				
Property tax	\$ 3,325,891	\$ 3,120,958	\$ 2,997,641	\$ 2,865,547
Other city tax				
Hotel/motel	490,300	503,295	526,819	484,003
Lottery	939,293	874,863	883,267	-
Total property and other city tax	4,755,484	4,499,116	4,407,727	3,349,550
Tax increment financing collections	5,997,960	4,668,981	3,822,352	3,438,325
Licenses and permits	452,064	628,498	618,660	601,370
Use of money and property	648,591	315,202	147,827	65,037
Intergovernmental:				
Road use tax	1,108,570	988,327	860,477	861,943
Library	133,823	126,913	129,285	134,060
State allocation	36,713	30,178	17,555	15,198
Grants	39,873	31,540	602	537,972
Bank franchise tax	-	-	2,262	15,198
Drug enforcement	50,841	81,328	41,415	164,451
Miscellaneous	444	5,960	10,393	20,803
Total intergovernmental	1,370,264	1,264,246	1,061,989	1,749,625
Charges for service	6,830,501	6,145,117	5,647,020	5,351,291
Special assessments	7,468	5,965	6,321	-
Miscellaneous	5,334,705	15,841,101	10,523,622	5,753,320
Total	25,397,037	33,368,226	26,235,518	20,308,518
Disbursements:				
Operating:				
Public safety	3,679,699	3,218,701	2,723,329	2,467,932
Public works	1,308,267	1,140,280	950,001	1,072,167
Culture and recreation	1,721,752	1,766,112	1,589,834	2,389,236
Community and economic development	1,972,798	1,833,179	1,686,510	1,208,469
General government	671,264	716,705	249,959	344,160
Debt service	3,290,010	4,810,661	2,385,084	2,552,061
Capital projects	9,460,450	4,406,379	6,418,797	531,572
Business-type activities	5,880,121	7,002,715	5,289,755	7,507,277
Total	\$27,984,361	\$24,894,732	\$21,293,269	\$18,072,874

See accompanying independent auditor's report.



MARTENS & COMPANY, CPA, LLP

CERTIFIED PUBLIC ACCOUNTANTS

4949 Pleasant Street, Suite 104

West Des Moines, Iowa 50266

(515)-223-4841

FAX: (515)-223-0851

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with Government Auditing
Standards**

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Altoona, Iowa as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated September 18, 2007. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Altoona's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Altoona's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Altoona's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Altoona's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Altoona's financial statements that is more than inconsequential will not be prevented or detected by the City of Altoona's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Altoona's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-07, II-B-07 and II-C-07 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Altoona's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Altoona's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Altoona's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Altoona and other parties to whom the City of Altoona may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Altoona during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Martens & Company, CPA, LLP

West Des Moines, Iowa
September 18, 2007

CITY OF ALTOONA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepting accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF ALTOONA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2007

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-07 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the following functions are not entirely segregated: cash receipts, general ledger posting, reconciliations and investment control and custody.

Recommendation - We realize that segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

II-B-07 Computer System Control - The design and controls established over the computer system process is very important in providing assurance and financial integrity of the City's financial records. We noted some weaknesses in the policies and controls.

Recommendation - Controls should be established to prevent water damage to computer equipment. There should be a written procedures plan.

Response - We will consider this.

Conclusion - Response acknowledged. Once established, the recommended policies and procedures will add a measure of assurance to the City's financial records.

II-C-07 Preparation of Financial Statements - The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

CITY OF ALTOONA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2007

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-C-07 Preparation of Financial Statements - Continued

Recommendation - We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the City's management and those charged with governance should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - We are aware of the situation and will continually review the risks associated with this condition because of cost or other considerations.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CITY OF ALTOONA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2007

Part III: Other Findings Related to Statutory Reporting:

III-A-07 Certified Budget - Disbursements during the year ended June 30, 2007, did not exceed the amounts budgeted.

III-B-07 Questionable Disbursements - We noted no expenditures for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

III-C-07 Travel Expenses - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-07 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Timothy J. Burget, Mayor	Flu shot, conference, membership	\$ 453
Matt Davenport, Council member	Cell phone expense	\$ 260
Joe Riding, Council member	Film processing	\$ 17

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with the Mayor and the Council Members do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year.

III-E-07 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

III-F-07 Council Minutes - No transactions were found that we believe should have been approved in the Council Minutes but were not.

CITY OF ALTOONA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2007

Part III: Other Findings Related to Statutory Reporting :

III-G-07 Revenue Bonds - All provisions of the revenue bond requirements have been met.

III-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.